

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 NEA-06 ISO-00 SP-02 AID-05 NSC-05

RSC-01 CIEP-01 TRSE-00 SS-15 STR-01 OMB-01 CEA-01

CIAE-00 COME-00 FRB-01 INR-05 NSAE-00 XMB-02 OPIC-03

LAB-04 SIL-01 EA-06 L-02 /082 W
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R 171817Z DEC 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 6655

INFO AMEMBASSY NEW DELHI

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 16484

DEPARTMENT PASS TREASURY

E.O. 11652: XGDS-1

TAGS: EFIN, EAID, UK, IN

SUBJECT: INDIAN DEBT RESCHEDULING

REF: (A) STATE 272448; (B) LONDON 13149; (C) STATE 212193

SUMMARY: EMBASSY OFFICERS SOUGHT UK VIEWS ON POSSIBILITY OF UK SERVING AS CHAIRMAN OF AN INDIAN CREDITOR CLUB. UK REMAINS FAR FROM CONVINCED OF THE BASIC US PROPOSITION ON THE NEED FOR A CREDITORS CLUB. THE US POSITION BRINGS INTO QUESTION THE FUTURE OF THE AID-TO-INDIA CONSORTIUM AS A WHOLE. WHERE DOES IT LEAD? FURTHER ELABORATION REQUESTED. END SUMMARY

1. FINANCIAL ATTACHE AND EMBASSY ECONOMIC OFFICER CALLED ON HESTER BOOTHROYD, UNDER SECRETARY, H.M. TREASURY, TO DISCUSS POSSIBILITY OF UK CHAIRING INDIAN CREDITOR CLUB. BOOTHROYD INVITED ODM OFFICIALS MAURICE SMITH, UNDER SECRETARY (ASIA) AND IAN BUIST, ASSISTANT SECRETARY (SOUTH ASIA) TO PARTICIPATE AS PART OF UK TEAM. AFTER LENGTHY DISCUSSION, HESTER BOOTHROYD, WITH THE CONCURRENCE OF ODM
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OFFICIALS PRESENT, STATED THAT H.M.G. REMAINED FAR FROM

CONVINCED OF THE ADVANTAGES OF MOVING THE RESCHEDULING FROM THE AID-TO-INDIA CONSORTIUM TO A CREDITOR CLUB. NO DECISION COULD BE TAKEN ON THE PROPOSITION FOR UK CHAIRMANSHIP OF A CREDITOR CLUB AT THIS TIME. MORE INFORMATION IS REQUIRED FROM US TO ENABLE H.M.G. TO MAKE A DECISION.

2. THROUGHOUT DISCUSSION, EMBASSY OFFICERS DREW ON GUIDANCE IN STATE 212193. TO ENABLE H.M.G. TO REACH DECISION ON THE CREDITOR CLUB VS. CONSORTIUM ISSUE, SEVERAL ADDITIONAL QUESTIONS WERE RAISED BY H.M.T. AND ODM TO WHICH WE WERE REQUESTED TO GIVE A CONSIDERED U.S.G. RESPONSE: (A) DOES US EXPECT DIFFERENT RESULTS TO COME FROM A CREDITOR CLUB THAN WOULD COME FROM THE DONORS CONSORTIUM? IF SO, WHAT DIFFERENCES? (B) WHEN WOULD THE CREDITOR CLUB MECHANISM COME INTO EXISTENCE? E.G. WOULD THE CREDITOR CLUB BE ACTIVATED ONLY WHEN THERE IS DEFAULT OR PROSPECT OF IMMINENT DEFAULT? OR AT REQUEST OF GOI? (C) DOES THE US ENVISAGE A SITUATION WHERE THE CREDITOR CLUB WOULD DO ITS OWN DOCUMENTATION AND ANALYSIS FOR USE THAT WHICH HAS BEEN ASSEMBLED BY THE WORLD BANK? (D) DOES THE US FEEL THERE ARE ADDITIONAL CASES BESIDES INDIA WHERE DEBT RELIEF IS AN ISSUE? (E) WITH IRAN AND KUWAIT HAVING JUST RECENTLY JOINED THE PAKISTAN AND BANGLADESH CONSORTIUM, DOES THE US REALLY WISH TO TAKE A STEP WHICH MIGHT LEAD TO THE BREAK-UP OF THE CONSORTIUM MECHANISM? HAS THE US CONSIDERED POLITICAL IMPACT ON THE SUB-CONTINENT? COMMENT: ODM OFFICIALS PARTICULARLY CONCERNED THAT THE MOVEMENT OF RESCHEDULING OUT OF THE DONOR CONSORTIUM WOULD RESULT IN DISINTEGRATION OF THE MECHANISM. THEY FEEL THIS IS PARTICULARLY UNTIMELY GIVEN THE POSSIBLE FUTURE PARTICIPATION OF OTHER DONORS SUCH AS IRAN AND KUWAIT. (F) DOES US EXPECT TERMS OF RESCHEDULING TO DIFFER IF NEGOTIATED IN CREDITOR CLUB RATHER THAN IN CONSORTIUM? COMMENT: ODM OFFICIALS STATED THAT US AND UK HAVE JOINTLY AND ACTIVELY ARGUED FOR SOFTER DEBT TERMS, BUT THEY FELT THAT ONE OF THE PRIMARY TASKS OF A CREDITOR CLUB IS TO OBTAIN HARDER TERMS. THIS, THEY BELIEVED, WOULD GIVE FRANCE AND JAPAN AN OPPORTUNITY TO RETREAT TO EARLIER POSITIONS OF SEEKING HARDER TERMS. (G) H.M.G. WONDERS IF THE CREATION OF A CREDITOR CLUB MIGHT BE DISCUSSED AT THE NEXT CONSORTIUM MEETING BEFORE FINAL DECISIONS ARE MADE? (H) HOW FAR DOES US AIM TO REDUCE ROLE OF IBRD?

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IUM MEETING BEFORE FINAL DECISIONS ARE MADE? (H) HOW FAR DOES US AIM TO REDUCE ROLE OF IBRD?

3. MRS. BOOTHROYD FEARED THAT IF INDEED THE MOVEMENT OUT OF THE CONSORTIUM LEADS TO HARDER TERMS THIS MIGHT INCREASE THE POSSIBILITY OF GOI REPUDIATING ITS DEBT.

4. AS A COMPROMISE SUGGESTION, MRS. BOOTHROYD WONDERED IF

THE AID-TO-INDIA CONSORTIUM MIGHT BE CONVENED IN TWO PARTS
- ONE TO CONSIDER AID; THE OTHER TO CONSIDER DEBT RESCHED-
ULING. MEETING IN THIS MANNER, THE ISSUES COULD BE SEPA-
RATED WITHOUT BREAK-UP OF THE CONSORTIUM MECHANISM. M.G.
SMITH, UNDER SECRETARY FOR ASIA, QUESTIONED WHETHER
OR NOT CONSORTIUM AND CREDITOR CLUB WOULD LOOK AT DIFFER-

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ENT CRITERIA FOR THE TWO MEETINGS. H.M.G. VIEWS NEW AID
AND DEBT RESCHEDULING AS PART OF THE SAME PACKAGE AND RE-
GARDLESS OF THE FORMAT, THEY ARE STILL GOING TO CONSIDER
THE RESULTS AS A LUMP SUM. THAT IS UK AID, WHETHER NEW OR
RESCHEDULED IS COMPUTED ON A NET BASIS AND THE CRITERIA
FOR DETERMINING EACH IS ESSENTIALLY THE SAME.

5. ODM OFFICIALS MADE CLEAR THAT GIVEN THE CURRENT INDIAN
ECONOMIC SITUATION, THEY SEE NO ALTERNATIVE TO DEBT RE-
SCHEDULING. THEY FELT THAT THE TIMING OF THE US PROPOSAL
IS PARTICULARLY BAD GIVEN THE PROSPECTS OF A CONTINUED
WIDENING OF INDIA'S BALANCE OF PAYMENTS GAP IN LIGHT OF
THE OIL DEFICITS, AND THE ENSUING NEED TO BRING AS MANY

COUNTRIES AS POSSIBLE INTO THE CONSORTIUM, ESPECIALLY THE OIL-PRODUCING COUNTRIES. THEY ALSO FELT THAT SINCE THE US HAS BEEN A PRINCIPAL LEADER IN THE INDIA CONSORTIUM, A RETRACTION FROM THIS POSITION WOULD BE A GREAT BLOW AND LEAD, MOST LIKELY, TO A COMPLETE BREAK-UP OF THE CONSORTIUM MECHANISM.

6. UPON RESPONSE TO H.M.G. QUESTIONS POSED ABOVE, H.M.T.

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AND ODM OFFICIALS WILL SUBMIT BRIEF FOR MINISTERIAL LEVEL DECISION WHICH, ACCORDING TO BOOTHROYD, WILL NECESSARILY HAVE TO INCLUDE FCO AS WELL AS H.M. TREASURY AND ODM.

7. COMMENT: BOOTHROYD'S QUESTIONS WERE FACTUAL AND APPEARED OBJECTIVE IN TERMS OF SEEKING TO BETTER UNDERSTAND US AIMS AND PROCEDURES AND TIMING WE ENVISAGE BEING FOLLOWED. ODM OFFICIALS' REACTION WAS COOL TO NEGATIVE THROUGHOUT, GIVEN THEIR APPARENTLY OVERRIDING CONCERN FOR FUTURE OF INDIAN CONSORTIUM. AT ONE POINT, THEY SAID THEY WOULD HAVE TO TAKE THE MATTER TO MINISTERIAL LEVEL WITH AIM OF A POLITICAL LEVEL ATTEMPT TO CHANGE US POSITION. WE REQUESTED THAT THEY AT LEAST AWAIT U.S.G. REPLIES TO THEIR QUESTIONS (PARA 2 ABOVE) BEFORE ATTEMPTING TO INFLUENCE ODM MINISTERS. WE HAVE CLEARLY GORED A SACRED COW. THIS MUCH SAID, BASED ON DISCUSSIONS WE SHOULD EXPECT CONTINUED SHARPLY CRITICAL ODM REACTION, WITH NO APPARENT DESIRE OR SUPPORT FROM H.M. TREASURY TO SHIFT DISCUSSIONS FROM THE CONSORTIUM TO A CREDITOR CLUB. EMBASSY WILL, HOWEVER, BE PLEASED TO TRY AGAIN IF WASHINGTON WISHES.

8. DEPARTMENT PASS OTHER POSTS AS DESIRED.

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